



**Revenue Information Bulletin  
No. 07-016  
May 22, 2007  
Sales Tax**

**Concerning the Sales Taxation of Repairs to Drilling Rigs, Machinery and Equipment Used in the Outer Continental Shelf**

The purpose of this Revenue Information Bulletin is to discuss the state sales taxability of and the state sales tax rates applicable to labor and sales of materials, services, and supplies, used for repairing, renovating or converting of any drilling rig, or machinery and equipment which are component parts thereof, which are used exclusively for the exploration or development of minerals outside the territorial limits of the state in Outer Continental Shelf waters. The Revenue Information Bulletin concludes that such transactions are currently exempt, and have been exempt from state sales since July 11, 2005, but were subject to a three percent state sales tax rate during the period July 1, 2004, through July 10, 2005, and to a four percent state sales tax rate for periods before July 1, 2002.

R.S. 47:305(I), as enacted by Act 31 of 2002, provides as follows:

**§ 47:305 -- Exclusions and exemptions from the tax**

**I.** The sales and use taxes imposed by the state of Louisiana or any of its political subdivisions shall not apply to the labor, or sale of materials, services, and supplies, used for repairing, renovating or converting of any drilling rig, or machinery and equipment which are component parts thereof, which is used exclusively for the exploration or development of minerals outside the territorial limits of the state in Outer Continental Shelf waters. For the purposes of this Subsection, “drilling rig” means any unit or structure, along with its component parts, which is used primarily for drilling, workover, intervention or remediation of wells used for exploration or development of minerals. For purposes of this Subsection, “component parts” means any machinery or equipment necessary for a drilling rig to perform its exclusive function of exploration or development of minerals.

The transactions related to repairs of drilling rigs discussed in the above statute became exempt from both state and local sales tax effective July 1, 2002, as provided by Act 31 of the 2002 Regular Session of the Legislature. The exemption was fully in effect with respect to state sales taxes, and not suspended, because of the following language of Section 2 of Act 31:

Section 2. The provisions of this Act shall be applicable, operable, and effective notwithstanding the provisions of the Act of the 2002 Regular Session of the Legislature which originated as House Bill No. 169 or any other Act of such session making certain sales tax exemptions inapplicable, inoperable, and of no effect.

House Bill 169, as discussed in Section 2, above, became Act 22 of the 2002 Regular Session of the Louisiana Legislature. Act 22 suspended through June 30, 2004, most of the sales tax exemptions applicable to both the two percent tax levy under R.S. 47:302 and the combined one percent tax levy under R.S. 47:331 and the sales tax ordinance of the Louisiana Tourism Promotion District. In addition, Act 22 indefinitely suspended sales tax exemptions applicable to

the additional one percent levy under R.S. 47:321. The indefinite suspension of the exemptions applicable to the tax levy under R.S. 47:321 remains in effect.

The transactions related to drilling rig repairs discussed in R.S. 47:305(I), as quoted above, remained fully exempt from state and local sales tax through June 30, 2004. On July 1, 2004, Act 4 of the 2004 First Extraordinary Session of the Louisiana Legislature became effective and partially suspended the sales tax exemption provided by R.S. 47:305(I). Act 4 enacted R.S. 47:321(R) and 331(P) to continue through June 30, 2009, the suspension of most exemptions applicable to the combined three percent levy under R.S. 47:302, 321, and the sales tax ordinance of the Louisiana Tourism Promotion District. Combined with the continuation of the one percent indefinite suspension provided by Act 22 of 2002, the tax rate applicable to most traditionally exempt transactions continued at 4 percent. The four percent levy did not apply, however, to the drilling rig repair transactions that are exempted under R.S. 47:305(I). The tax rate applicable to those transactions became subject to state sales tax at the reduced rate of 3 percent. They were subject to only the combined three percent levy under R.S. 47:302, 321, and the sales tax ordinance of the Louisiana Tourism Promotion District. The one percent levy under R.S. 47:321 did not apply because of the language from Section 2 of Act 31 of 2002, as quoted above, which specifically provided that the suspensions of exemptions under Act 31 did not apply to this exemption.

The three percent tax rate on these drilling equipment repair transactions continued in effect through July 10, 2005. As of the July 11, 2005, effective date of Act 457 of the 2005 Regular Legislative session, the transactions once again became fully exempt from state sales tax. Act 457 amended R.S. 47:305.10, a sales tax exemption statute that is not suspended, to incorporate into that statute by reference the sales tax exemption for drilling rig repairs provided by R.S. 47:305(I).

This means that for periods since July 1, 2002, the following tax rates are applicable to transactions for labor, or sale of materials, services, and supplies, used for repairing, renovating or converting of any drilling rig, or machinery and equipment which are component parts thereof, which is used exclusively for the exploration or development of minerals outside the territorial limits of the state in Outer Continental Shelf waters.

<b>Dates</b>	<b>Applicable State Sales Tax Rate</b>
July 1, 2002, through June 30, 2004	0%, fully exempt
July 1, 2004, through July 10, 2005	3%
July 11, 2005, and forward	0%, fully exempt

If questions arise, please call the Taxpayer Services Division at 225.219.7356 or one of the department's regional offices.

Cynthia Bridges  
Secretary

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